

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

ARA-11 DODE-00 PM-07 H-02 L-03 PA-03 PRS-01 USIA-12

AF-10 RSR-01 /184 W

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R 141815 Z JUN 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5707

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E. O. 11652: GDS

TAGS: EAID, DAC, IBRD, GW

SUBJECT: FRG AID MINISTRY - PLANS AND FINANCIAL PROSPECTS

1. SUMMARY - DURING A RECENT CALL BY SPC STAFF MEMBER SANDERSON AND EMBOFF, JANSSEN (AID MINISTRY, INTERNATIONAL FINANCIAL INSTITUTIONS,) DISCUSSED SOME OUTSTANDING PLANS AND PROBLEMS OF THE FRG AID MINISTRY AS HE SEES THEM. THERE FOLLOWS A RESUME OF JANSSEN' S REMARKS ON FRG PLANS FOR PARTICIPATION IN THE IDB, ON UNTYING OF AID AND ON THE OUTLOOK FOR AN INCREASE IN AID MINISTRY FUNDS. END SUMMARY.

2. IDB - THE FRG WAS SERIOUSLY CONSIDERING JOINING THE IDB. THE PRINCIPAL PROBLEM REMAINED, AS USUSAL WITH A " NEW" PROGRAM, SECURING THE BUDGET FUNDS THE AID MINISTRY WOULD NEED TO PARTICIPATE. IF THE FUNDS COULD BE FOUND, THE AID MINISTRY WOULD LIKE TO MAKE AN ANNUAL CONTRIBUTION OF ABOUT DM 300 MILLION (INCLUDES BOTH CAPITAL SUBSCRIPTION AND THE SPECIAL FUND). BANKERS AND EXPORTERS

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WITH LATIN AMERICAN INTERESTS SURPRISINGLY HAD EXPRESSED COMPLETE UNCONCERN AS TO WHETHER OR NOT THE FRG JOINED THE IDB. THESE BUSINESSMEN HAD SAID THAT NEITHER PRICE NOR INTEREST RATES WERE AS IMPORTANT FOR SALE OF CAPITAL GOODS IN LATIN AMERICA AS APPROPRIATE DESIGN, PUNCTUALITY OF DELIVERY AND RELIABILITY OF PERFORMANCE.

3. UNTYING OF AID - THE FRG HAS TAKEN A POSITION IN SUPPORT OF MULTILATERAL UNTYING OF AID IN PREVIOUS DISCUSSION IN THE DAC AND WOULD CONTINUE TO DO SO IN THE FUTURE. EVEN MORE DIFFICULT WAS THE PROBLEM OF INDIRECT AID TYING, AS IN THE FRG WHERE ALL CAPITAL AID WAS OFFICIALLY UNITED BUT ABOUT 85 PERCENT OF PROCUREMENT FROM GERMAN AID CREDITS TOOK PLACE IN THE FRG. A DAC STUDY OF INDIRECT AID TYING MIGHT BE VERY USEFUL, NOT ONLY FOR ITS OWN SAKE BUT ALSO IN ILLUSTRATING TO THE US CONGRESS THAT THE FIRST STEP, I. E., OFFICIALLY UNTYING AID, WAS A RELATIVELY PAINLESS ONE.

4. MULTILATERAL INSTITUTIONS - THE MOST EFFECTIVE WAY OF TRULY UNTYING AID WAS PROBABLY THE CANNELING OF FUNDS THROUGH MULTILATERAL INSTITUTIONS. THE FRG PLANNED TO RAISE THE SHARE OF MULTILATERAL CONTRIBUTIONS IN ITS OFFICIAL ASSISTANCE FROM THE PRESENT 30 PERCENT TO A LONG TERM AVERAGE OF ABOUT 33 PERCENT, ALTHOUGH THE PERCENTAGE MIGHT EVEN RISE A FEW PERCENTAGE POINTS HIGHER AT TIMES WHEN THE FRG'S ECONOMIC SITUATION WARRANTED IT. IN GENERAL, THE AID MINISTRY EXPECTED INCREASED FRG CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS AND A GREATER DEGREE OF PARTICIPATION IN THEIR DECISION MAKING PROCESS.

5. AID MINISTRY FINANCES - PRINCIPALLY AS A RESULT OF THE MCNAMARA VISIT TO BONN IN FEBRUARY, A COMMITTEE OF THREE (AIDMIN EPPLER, ECONMIN FRIDERICHs AND FINMIN SCHMIDT) HAD BEEN FORMED TO REVIEW THE FRG AID PROGRAM. THIS COMMITTEE HAD DECIDED TO RECOMMEND INCREASES IN THE FRG AID FUNDS, BUT THE MAY 9 CABINET MEETING AT WHICH THIS WAS TO HAVE BEEN CONSIDERED HAD BEEN PRE- EMPTED BY A DISCUSSION OF THE GOVERNMENT'S STABILITY PROGRAM. CABINET CONSIDERATION OF THE RECOMMENDATIONS ON AID WOULD NOW TAKE PLACE AT THE WORST POSSIBLE TIME, DURING THE GENERAL BUDGET MEETING NOW SCHEDULED FOR SEPTEMBER 6.

6. ANOTHER POSSIBILITY FOR INCREASING AID MINISTRY RESOURCES WAS USE OF THE GOVERNMENT'S ANTI- CYCLICAL STABILITY FUNDS FOR AID LIMITED OFFICIAL USE

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ACTIVITIES WITH A RELATIVELY NEUTRAL IMPACT ON THE FRG ECONOMY, SUCH AS DEBT RESCHEDULING AND CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS. THIS HAD BEEN PROPOSED BY AN SPD BUNDESTAG MEMBER AND WAS BEING SUPPORTED BY THE AID MINISTRY VIS A VIS THE FINANCE MINISTRY. ACCEPTANCE OF THIS PROPOSAL WOULD REQUIRE AN AMENDMENT TO PRESENT LAW, HOWEVER, AS WOULD ANOTHER PROPOSAL TO GIVE THE AID MINISTRY THE USE OF THE INFLOW OF FUNDS FROM PREVIOUS DEVELOP-

MENT CREDITS. THESE FUNDS PRESENTLY ARE RETURNED TO THE FINANCE
MINISTRY. THESE POSSIBILITIES DID NOT EXHAUST THE LIST OF
SOURCES BEING INVESTIGATED BY THE AID MINISTRY - EVEN LOTERIES
AND SPECIAL POSTAGE STAMPS WERE BEING CONSIDERED. ON THE WHOLE,
PROSPECTS FOR AN INCREASE OF SOME SORT IN AID MINISTRY RESOURCES
WERE BETTER THAN HE WOULD OTHERWISE EXPECT IN VIEW OF THE
EXTREMELY TIGHT FRG BUDGET SITUATION. HILLENBRAND

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